

TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE



FISCAL NOTE

HB 1859 - SB 1883

February 24, 2018

SUMMARY OF BILL: Authorizes the owner or lessee of a vehicle to elect for the issuance of a motor vehicle registration that is valid for 24 months. Requires the Department of Revenue (DOR) to set the 24-month registration fees in an amount that offsets revenue that would otherwise be generated by 12-month registration fees. Authorizes the Commissioner of the DOR to establish a system of registration renewals at alternate intervals that allows for a uniform distribution of the registration workload.

ESTIMATED FISCAL IMPACT:

Increase State Revenue –

\$73,150,000/FY18-19 and Every Two Years Thereafter/Highway Fund

\$3,850,000/FY18-19 and Every Two Years Thereafter/General Fund

Decrease State Revenue –

\$73,150,000/FY19-20 and Every Two Years Thereafter/Highway Fund

\$3,850,000/FY19-20 and Every Two Years Thereafter/General Fund

\$584,100/FY19-20 and Every Two Years Thereafter/

Environmental Protection Fund

Increase Local Revenue - \$98,700,000/FY18-19 and Every Two Years Thereafter

Decrease Local Revenue - \$99,752,800/FY19-20 and Every Two Years Thereafter

Other Fiscal Impact - Authorizing motor vehicle registrations to be valid for a period of 24 months will require changes to the state implementation plan under the federal *Clean Air Act*. If the Environmental Protection Agency does not approve such plan changes, the state will be out of compliance with federal requirements and could be subject to sanctions under Section 179 of the Act. In FY17-18, the state received \$1,454,683 in federal funding under the Act.

Assumptions:

- Pursuant to Tenn. Code Ann. § 55-4-104(b), motor vehicle registration plates are valid for 12 months and expire on the last day of the last month of the registration period.
- Passage of this legislation would allow the owner or lessee of a vehicle to elect for the issuance of a motor vehicle registration that is valid for 24 months.
- Pursuant to Tenn. Code Ann. § 55-4-111(a)(1), motor vehicle registration fees vary based on the vehicle registered.
- According to the DOR, based on current year-to-date registration fee collections of \$111,036,851, it is estimated that registration fee collections will total \$220,000,000 for FY17-18.
- It is assumed that, in the absence of this legislation, annual registration fee revenue would total \$220,000,000 into perpetuity.
- This legislation applies to plates issued or renewed on or after July 1, 2018; therefore, the first year impacted is FY18-19.
- It is estimated that approximately 35 percent of registrants will elect to renew on a two-year cycle and 65 percent of registrants will continue on the one-year cycle.
- The increase in state revenue associated with a 24-month registration renewal in FY18-19 and every two years thereafter is \$77,000,000 ($\$220,000,000 \times 35\%$).
- The decrease in state revenue associated with a 24-month registration renewal in FY19-20 and every two years thereafter is \$77,000,000.
- Approximately 95 percent of motor vehicle registration fees are allocated to the Highway Fund; the remaining 5 percent is allocated to the General Fund.
- The increase in revenue to the Highway Fund, in FY18-19 and every two years thereafter, is estimated to be \$73,150,000 ($\$77,000,000 \times 95\%$); the increase in revenue to the General Fund, in FY18-19 and every two years thereafter, is estimated to be \$3,850,000 ($\$77,000,000 \times 5\%$).
- The decrease in revenue to the Highway Fund, in FY19-20 and every two years thereafter, is estimated to be \$73,150,000 ($\$77,000,000 \times 95\%$); the decrease in revenue to the General Fund, in FY19-20 and every two years thereafter, is estimated to be \$3,850,000 ($\$77,000,000 \times 5\%$).
- Pursuant to Tenn. Code Ann. § 5-8-102, each county is authorized to levy a privilege tax, commonly known as the wheel tax.
- Fifty-nine out of 95 counties in Tennessee impose a motor vehicle privilege tax. The average tax rate among the 59 counties that impose the tax is estimated to be \$47.00. It is assumed that local motor vehicle privilege taxes will double for 24-month registrations.
- The DOR estimates that there are approximately 6,000,000 vehicles registered in Tennessee.
- The increase in local revenue in FY18-19 and every two years thereafter is estimated to be \$98,700,000 ($6,000,000 \times 35\% \times \47).
- The decrease in local revenue in FY19-20 and every two years thereafter is estimated to be \$98,700,000 ($6,000,000 \times 35\% \times \47).

- The Tennessee Department of Environment and Conservation (TDEC) administers the vehicle emission testing program in Sumner, Rutherford, Wilson, Williamson and Hamilton Counties.
- TDEC uses the motor vehicle registration process as a mechanism to enforce annual motor vehicle testing requirements. Assuming TDEC continues to use the same mechanism, this legislation will result in a 35 percent decrease in the number of emissions tests performed, once every two years.
- TDEC receives \$1.80 per each emission test in the aforementioned counties.
- In FY16-17, TDEC tested 927,215 cars, and collected \$1,668,987 ($927,215 \times \1.80). This number is assumed to remain constant into perpetuity under current law.
- TDEC will experience a decrease in state revenue of \$584,145 in FY19-20 and every two years thereafter ($\$1,668,987 \times 35\%$).
- County Clerks in Sumner, Rutherford, Wilson, Williamson and Hamilton Counties each receive \$1.00 per every emission testing performed.
- A decrease in local revenue of \$324,525 in FY19-20 and every two years thereafter ($927,215 \times 35\% \times \1.00).
- The Metropolitan Nashville-Davidson County Government (MNDC) is the only other county government which requires residents to undergo emissions testing and it contracts with a vendor to operate the emissions testing facilities.
- Based information provided by TDEC, MNDC collected \$2,080,900 in FY16-17 from fees collected from emissions testing. This number is assumed to remain constant into perpetuity under current law.
- The decrease in local revenue is estimated to be \$728,315 in FY19-20 and every two years thereafter ($\$2,080,900 \times 35\%$).
- The total decrease in local revenue is estimated to be \$99,752,840 in FY19-20 and every two years thereafter ($\$98,700,000 + \$324,525 + \$728,315$).
- TDEC receives federal funding for air pollution control programs under Section 105 of the federal *Clean Air Act*. The Environmental Protection Agency (EPA) has the authority to impose sanctions under Section 179 of the Act, including withholding of air pollution control program funding, if the state is out of compliance with its federally approved state implementation plan.
- Such plan requires motor vehicles registered in any of the abovementioned counties to be inspected annually for compliance with emissions performance and anti-tampering test criteria. In Tennessee, an owner or operator of a motor vehicle is required to produce a Certificate of Compliance with the testing requirements as a prerequisite to renewing the vehicle registration tag.
- Permitting motor vehicle registrations to be valid for a period of 24-months will require changes to the state implementation plan. If the EPA does not approve such plan changes, the state will be out of compliance with the federal requirements and could be subject to sanctions under Section 179 of the Act. In FY17-18, the state received \$1,454,683 in federal funding under the Act.

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.

A handwritten signature in dark ink that reads "Krista M. Lee". The signature is written in a cursive, flowing style.

Krista M. Lee, Executive Director

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